



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
ROCKCASTLE COUNTY CLERK**

Calendar Year 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ROCKCASTLE COUNTY CLERK

Calendar Year 2001

The Auditor of Public Accounts has completed the Rockcastle County Clerk's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$6,439 from the prior calendar year, resulting in excess fees of \$12,940 as of December 31, 2001. Revenues increased by \$36,425 from the prior year and disbursements increased by \$42,864.

Report Comment:

- Lacks Adequate Segregation Of Duties.

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES	3
NOTES TO FINANCIAL STATEMENT	6
COMMENT AND RECOMMENDATION	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable George C. Carloftis, Rockcastle County Judge/Executive

Honorable Norma Houk, Rockcastle County Clerk

Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Rockcastle County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable George C. Carloftis, Rockcastle County Judge/Executive
Honorable Norma Houk, Rockcastle County Clerk
Members of the Rockcastle County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 20, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following reportable condition:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 20, 2002

ROCKCASTLE COUNTY
NORMA HOUK, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

State Fees For Services	\$	6,926	
Fiscal Court			20,756
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	371,872	
Usage Tax		641,565	
Tangible Personal Property Tax		711,955	
Licenses-			
Title Applications		3,136	
Marriage		5,693	
Occupational		961	
Deed Transfer Tax		19,195	
Delinquent Tax		49,704	1,804,081
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	11,721	
Real Estate Mortgages		19,768	
Chattel Mortgages and Financing Statements		36,742	
Powers of Attorney		1,263	
All Other Recordings		15,820	
Charges for Other Services-			
Candidate Filing Fees		1,570	
Copywork		1,548	
Miscellaneous		1,756	90,188
Interest Earned			2,076
Total Receipts (Carried forward)	\$		1,924,027

ROCKCASTLE COUNTY
 NORMA HOUK, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2001
 (Continued)

Total Receipts (Brought forward) \$ 1,924,027

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 283,513

Usage Tax 622,479

Tangible Personal Property Tax 311,008

Licenses, Taxes, and Fees-

Delinquent Tax 7,128

Legal Process Tax 12,957

Candidate Filing Fees 900 \$ 1,237,985

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 47,857

Delinquent Tax 5,190

Deed Transfer Tax 18,236

Occupational Licenses 781 72,064

Payments to Other Districts:

Tangible Personal Property Tax \$ 320,355

Delinquent Tax 23,953 344,308

Payments To Sheriff 1,213

Payments To County Attorney 7,454

Operating Disbursements:

Personnel Services-

Deputies' Salaries \$ 136,015

Employee Benefits-

Employer's Share Social Security 13,338

Contracted Services-

Maintenance 3,396

Equipment Rental 4,038

Bonds and Insurance 2,029

Printing and Binding 2,333

ROCKCASTLE COUNTY
 NORMA HOUK, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2001
 (Continued)

Disbursements(Continued)

Operating Disbursements (Continued):

Materials and Supplies-		
Office Supplies	\$	3,514
Other Charges-		
Conventions and Travel		3,175
Dues		400
Postage		5,600
Janitor Services		2,938
Refunds		3,298
Miscellaneous		895
		<hr/>
Total Disbursements		\$ 1,843,993
		<hr/>
Net Receipts		\$ 80,034
Less: Statutory Maximum		<hr/> 61,306
		<hr/>
Excess Fees		\$ 18,728
Less: Expense Allowance	\$	3,600
Training Allowance		2,188
		<hr/>
		<hr/>
Excess Fees Due County for Calendar Year 2001		\$ 12,940
Payment to County Treasurer - February 11, 2002		<hr/> 12,940
		<hr/>
Balance Due at Completion of Audit		<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statement.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENT AND RECOMMENDATION

ROCKCASTLE COUNTY
NORMA HOUK, COUNTY CLERK
COMMENT AND RECOMMENDATION

Calendar Year 2001

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. Specific duties that were not segregated include: The County Clerk makes all deposits, writes all checks, and records all these transactions in the ledgers; the County Clerk opens all incoming mail; and daily checkout sheets are not independently compared to the receipts ledger postings. We have the following suggestions as to how the Rockcastle County Clerk can improve her segregation of duties. The County Clerk could have one of her deputies open and record mail prior to receipt by the Clerk (who now records those receipts). Or, the Clerk could have one of her deputies record receipts in the ledger and another deputy record disbursements. The Clerk could then compare daily checkout sheets with those amounts recorded in the receipts ledger and compare recorded disbursements with invoices to assure agreement. A person independent of the deposit process should compare deposits to daily checkout sheets and ledger postings to assure agreement. A separate deputy could do bank reconciliations. Including a second signature on all checks is a good control procedure. These are just a few examples. There are other possibilities that could improve segregation of duties.

County Clerk's Response:

Clerk will study and see what can be done.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable George C. Carloftis, Rockcastle County Judge/Executive

Honorable Norma Houk, Rockcastle County Clerk

Members of the Rockcastle County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Rockcastle County Clerk for the year ended December 31, 2001, and have issued our report thereon dated May 20, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Rockcastle County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rockcastle County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation:

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 20, 2002

